MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BAC2674 – TAXATION 1

(All sections / Groups)

12 OCTOBER 2017
2.30 p.m. – 5.30 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 10 pages excluding the cover page with 5 (five) Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

a) Lavender Sdn. Bhd. (Lavender) is a resident company, specializes in cosmetic and personal care manufacturing and formulation. Lavender has been in operation for five years and makes up its accounts to 31 December annually. Details of Lavender's existing non-current assets, including assets disposed of, and new assets acquired in the year ended 31 December 2016 are as follows:

Existing assets and assets disposed of during the year ended 31 December 2016	
i)	Showroom and office administration area
	Construction was completed on 15 April 2013 for a total cost of RM400,000. The costs relating to the office administration area are RM35,000.
ii)	Cash register
	The cash register was acquired on 1 May 2014 for RM500 and capital allowance was claimed as small value asset in the year of acquisition. The cash register was damaged due to a fire and was written off on 1 July 2016.
iii)	Inventory grading machine (general plant and machinery)
	The machine was imported from Japan on 1 August 2013 for RM195,000. It was sold to a supplier for RM150,000 on 20 November 2016.
New assets acquired during the year ended 31 December 2016	
iv)	General plant & machinery
	On 1 March 2016, Lavender incurred RM70,000 for preparing, cutting and levelling of land for the installation of a machine which cost RM60,000.
v)	Renovation costs
	The costs of renovating a showroom amounting to RM34,000 was incurred on 1 February 2016. Included in these renovation costs was a racking system costing RM16,000.
vi)	Motor car (non-commercial)
	A second-hand car was acquired on 15 February 2016 under hire purchase for the use of Lavender's managing director. The details for the second-hand car are as follows:

	RM
Cash price	135,000
Deposit	(15,000)
Hire purchase loan	120,000
Amount for each instalment (excluding hire purchase interest)	2,500

There are 48 monthly instalments commencing from March 2016. In addition, the costs of road tax and insurance was RM3,100. The original cost of the car when new was RM300,000.

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Required:

Compute the capital allowance claimable, by Lavender Sdn. Bhd. on its existing and new assets for the year of assessment 2016 as well as the balancing charge or balancing allowance on the disposal/write off of the cash register and the inventory grading machine.

Note: you may need to identify those assets or expenses which are non-qualifying and state the reason.

(15 marks)

b) Mary operates a grocery store and needs a truck in order to expand her business. She then seeks the financial aid from her father, who is a successful businessman due to lack of fund. Mary's father has agreed to pay for the truck in cash and cover all the maintenance costs too. The truck, which would be licensed to carry goods, will be registered under Mary's name and used in her business only and not in her father's business.

Required:

Explain with reasons, who is entitled to claim capital allowance on the truck under Schedule 3 of the Income Tax Act 1967 (as amended).

(5 marks)
[Total: 20 marks]

QUESTION 2 (20 MARKS)

a) Claire is a Philippine citizen. She arrived in Malaysia on 2 December 2014 and commenced her employment in Malaysia on the same date. She left Malaysia on 31 March 2015 for an assignment in Indonesia related to her employment in Malaysia and returned on 1 June 2015. She left Malaysia again on 30 June 2015 for Korea to review the sales development of the Korean market for her employer and returned on 1 September 2015. She left Malaysia for holidays in Japan on 31 October 2015 and returned on 21 November 2015. On 30 November 2015, she resigned from her position with her employer and left Malaysia on the same date. On 1 July 2016, she returned to Malaysia to get married and has not left Malaysia since.

Required:

Analyse with reasons, Claire's residence status for each of the years of assessment from 2014 to 2016.

(10 marks)

Continued...

b) Peter and Jane are partners in an accounting firm in Malaysia. The terms of their partnership agreement are as follows:

Profits and losses	Shared equally (50: 50)
Annual salary: Peter	RM44,000
: Jane	RM54,000
Annual interest on capital contribution – Peter	RM9,000

For the year ended 31 December 2016, the partnership had provisional adjusted income of RM240,000 and was entitled to capital allowances of RM10,000 for assets used in the business. During the year 2016, the partnership paid a private expense on behalf of Jane of RM5,000.

In addition to the partnership business, Peter and Jane have the following other sources of income:

(1) Peter has a sole proprietor business in Malaysia which generated an adjusted loss of RM2,000 for the year of assessment 2016.

(2) Jane derives rental income from a Malaysian property which she holds for investment purposes. In the year of assessment 2016, Jane's rental income (net of allowable expenses) was RM10,000.

Both Peter and Jane are unmarried and Malaysian citizens, but Jane has not been resident in Malaysia since 2013.

Required:

Compute the divisible income of the partnership and the chargeable income of Peter and Jane respectively for the year of assessment 2016.

(10 marks)

[Total: 20 marks]

Continued...

QUESTION 3 (20 MARKS)

a) Ms Carol and Mr Stephen, both Australians, are examiners from the Australian Music Examination Board based in Australia. They arrived in Malaysia for the first time in July 2016 to conduct musical examination for piano in Kuala Lumpur, Malaysia. During the period they were in Malaysia, they exercised their employment in Malaysia but were not paid any salary in Malaysia. Their salaries were paid in Australia.

Ms Carol returned to Australia after 70 days in Malaysia which included a twelve-day holiday. Mr Stephen returned to Australia after 62 days in Malaysia, all of which were for work. Neither Ms Carol nor Mr Stephen is expected to return to Malaysia in the next two years.

Required:

Advise Ms Carol and Mr Stephen on the Malaysian income tax implications relating to the exercise of their employment during the period of their stay in Malaysia.

(10 marks)

b) DHM Sdn. Bhd. ('the company') is a logistic company. One day, one of the company's van driver ('the driver') lost control of the van and crashed into a shophouse and caused serious damage to the buiding. The driver was injured in the accident and was admitted to Pantai hospital for a month. The driver then filed a claim with the company for compensation for bodily injury sustained. However, the company refused to pay any compensation, and claimed that the driver should be held accountable for the accident. The driver then instituted a legal action and filed a case in court against the company for compensation.

The court gave a decision against the company and ordered it to pay the driver a sum of RM150,000 as compensation. The company then claimed the payment of RM150,000 as an expense in the income statement for the financial year ended 31 December 2016.

Required:

With reference to the Income Tax Act 1967 (as amended), discuss whether the claim by the company in respect of the compensation paid would be deductible in arriving at the adjusted income of its business.

(10 marks)

[Total: 20 marks]

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QUESTION 4 (20 MARKS)

Leo, a Malaysian tax resident, is married to Sharon and has a 19-year-old daughter, Judy. Judy is pursuing a full-time degree at a local Malaysian university and received a full scholarship from Malaysian government for her university fees. Leo has worked as a senior manager for BIG Sdn. Bhd. (BIG) since year 2010 and Sharon has no income.

Details of Leo's employment income and benefits for the year of assessment (YA) 2016 are as follows:

- A monthly gross salary of RM10,500.
- A bonus equal to two months' gross salary.
- Leo contributed 11% of his monthly salary towards the employees' provident fund (EPF).
- Reimbursement received from BIG for taxi fares of business trips for clients and suppliers totalling RM3,300 for the year.
- Medical expenses incurred by Leo but borne by employer totalling RM500.
- Semi-furnished accommodation provided free by the employer. BIG paid a monthly rental of RM1,000 for an apartment which included RM200 for furniture in the lounge, dining room and bedroom. In addition, the accommodation also equipped with air-conditioners, curtains and carpets.
- An overseas leave passage costing RM4,500 , which consists of a) RM3,000 for airfare and b) RM1,500 for meal and accommodation was provided by the employer.
- A television set costing RM11,000 was provided after receiving BIG's service excellence award.

- Other information relating to Leo for YA2016 is as follows:
  - Leo derived rental income of RM23,600 net of expenses from a property which he holds for investment purpose in Australia. This amount was later remitted into his bank account in Malaysia.
  - Leo donated cash of RM6,000 to an approved charitable organisation.
  - Leo and Sharon also donated hamper to an old folks home (an approved institution) in Melaka worth RM500.
  - Leo paid RM500 for complete medical examination for himself.
  - Leo paid the expenses for a weight loss programme for Sharon of RM3,000.
  - Leo received interest income of RM2,400 from a fixed deposit account with the local CIMB Bank.
  - Leo spent RM6,000 to purchase shares traded on Bursa Malaysia.
  - Leo paid tuition fees of RM6,000 for his master degree at University Putra Malaysia.

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Leo also runs a part-time business, selling computer games software. Details of his business income for the year 2016 are as follows:

Adjusted income	RM36,000
Capital allowances	RM 5,200
Unabsorbed business loss brought forward (from YA2015)	RM1,110

Required:

Compute the income tax payable by Leo under the Income Tax Act 1967 (as amended) for the year of assessment 2016.

Note: You should indicate by the use of the word 'nil', for any item referred to in the question for which no adjusting entry needs to be made in the tax computation.

[Total: 20 marks]

QUESTION 5 (20 MARKS)

a) Ms Cindy operates a bakery, "Cindy's Breadstory", selling homemade bread and pastry to customers around Bukit Beruang, Melaka. The income statement of Ms Cindy's sole proprietor business for the period from 1.1.2016 to 31.12.2016 is as follows:

	Note	RM	RM
Sales			405,000
Less: Cost of sales			91,000
Gross profit			314,000
Add: Other income			
Insurance compensation	1		20,000
			334,000
Less : Expenses			
Interest expense	2	5,500	
Advertisement expense	3	9,000	
Bakery rental expense		18,000	
Salaries to staff	4	48,000	
Repair and maintenance expense	5	10,000	
Medical expenses on Ms. Cindy's mother		9,000	
Cash donation to an approved institution		1,000	
Depreciation		21,000	
Insurance expense	6	9,600	
Bad and doubtful debts	7	5,770	
Compound and fine	8	300	137,170
Net profit			196,830

Notes:

1. The insurance compensation was received from an insurance company for raw materials destroyed during a flash flood.

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2. Interest expense arising from a bank loan taken as the working capital for the business from a local bank.
3. Advertisement expense of RM8,000 was incurred to promote the business products through newspapers advertising, whereas the remaining RM1,000 was presented as the wedding gift to one of the Ms Cindy's longest serving staff.
4. Salaries include the remuneration of RM10,000 paid to trainees who are under the approved internship programme.
5. Repair and maintenance expense refers to the cost incurred to renovate the storefront of the bakery.
6. Insurance expense refers to the insurance premium paid for insuring the trading stocks, plant and machinery of the sole-proprietor business.
7. Bad and doubtful debts consists of (i) general provision of bad debts of RM2,000; (ii) bad debts written-off of RM1,000 (trade related); (iii) and bad debts written-off of RM2,770 being the advancement to an old staff who had passed away in July 2016.
8. Compound and fine was paid for traffic violation by Ms. Cindy.
9. Capital allowances in respect of assets used in business for the year of assessment 2016 has been computed at RM26,000.
10. Unabsorbed business loss brought forward from the year of assessment 2015 was RM8,000.

Required:

Based on the information given, compute the total income of "Cindy's Breadstory" for the year of assessment 2016.

Note:
You are to start with the net profit figure and should indicate, by the use of the word 'nil', for any item referred to in the question for which no adjusting entry needs to be made in the tax computation. You are not required to explain the tax adjustments that you have made to the accounts in arriving at the total income of the business.

(15 marks)

b) Vivo Tech Sdn. Bhd. (Vivo), which has been in business for many years, intends to purchase an old shop house for RM350,000 as the company's new business premise. The shop house cannot be occupied by Vivo without significant repair costs being incurred which are estimated to be RM200,000.

Required:

State with reasons, whether the repair costs should be treated as revenue or capital expenditure for tax purposes by Vivo Tech Sdn. Bhd.

(5 marks)

[Total: 20 marks]

End of questions.

APPENDIX 1

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

Income tax rates for resident individuals for the year assessment 2016.

	Chargeable Income	Tax Rate	Income Tax Payable
	RM	(%)	RM
First	**2,500**	**0**	**0**
Next	2,500	0	0
On	**5,000**		**0**
Next	5,000	1	50
On	**10,000**		**50**
Next	10,000	1	100
On	**20,000**		**150**
Next	15,000	5	750
On	**35,000**		**900**
Next	15,000	10	1,500
On	**50,000**		**2,400**
Next	20,000	16	3,200
On	**70,000**		**5,600**
Next	30,000	21	6,300
On	**100,000**		**11,900**
Next	50,000	24	12,000
On	**150,000**		**23,900**
Next	100,000	24	24,000
On	**250,000**		**47,900**
Next	150,000	24.5	36,750
On	**400,000**		**84,650**
Next	200,000	25	50,000
On	600,000		134,650
Next	400,000	26	104,000
On	1,000,000		238,650
Exceeding	1,000,000	28	...

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Reliefs

	RM
Self	9,000
Disabled taxpayer self- additional relief	6,000
Medical expenses expended for parents (max)	5,000
Medical expenses expended on self, spouse or child with serious diseases [including up to RM500 for medical examination (max)]	6,000
Basic supporting equipment for disabled self, spouse, child or parent (max)	6,000
Fees expended for skills or qualifications (max)	7,000
Expenses on books for personal use (max)	1,000
Spouse relief (if he or she has no source of income or elects for combined assessment)	4,000
Disabled spouse	3,500
Child (each)	2,000
Disabled child (each)	6,000
Child- over 18 years of age and studying in higher learning institution	8,000
Disabled child studying in higher learning institution	14,000
Amount deposited to SSPN for his child (max)	6,000
Life insurance premiums and contributions to approved provident funds (max)	6,000
Medical or education insurance premiums for self, spouse or child (max)	3,000
Purchase of personal computer once every 3 years (max)	3,000
Purchase of sports equipment	300
Premium on deferred annuity contract and private retirement scheme (max)	3,000

Rebates

	RM
Chargeable income not exceeding RM35,000	
Individual	400
Individual who has been given a deduction in respect of a spouse or former wife	400

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Prescribed value of benefits in kind: Car and fuel scale

Cost of car (when new)	Prescribed annual value of private usage of car	Fuel per annum
RM	RM	RM
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001- 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equal to half of the prescribed annual value (above) is taken if the car provided is more than five (5) years old, but the value of the fuel provided remains unchanged. Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

Other benefits

Household furnishings, apparatus & appliances	
Semi-furnished with furniture in the lounge, dining room, or bedrooms	- RM70 per month
Semi-furnished with furniture as above and one or more of the following:	
Air-conditioners, curtains, carpets	- RM140 per month
Fully furnished premises	- RM280 per month
Domestic servant	- RM400 per month
Gardener	- RM300 per month

Capital allowances

	Initial allowance Rate (%)	Annual allowance Rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings	20	10
Industrial building	10	3

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